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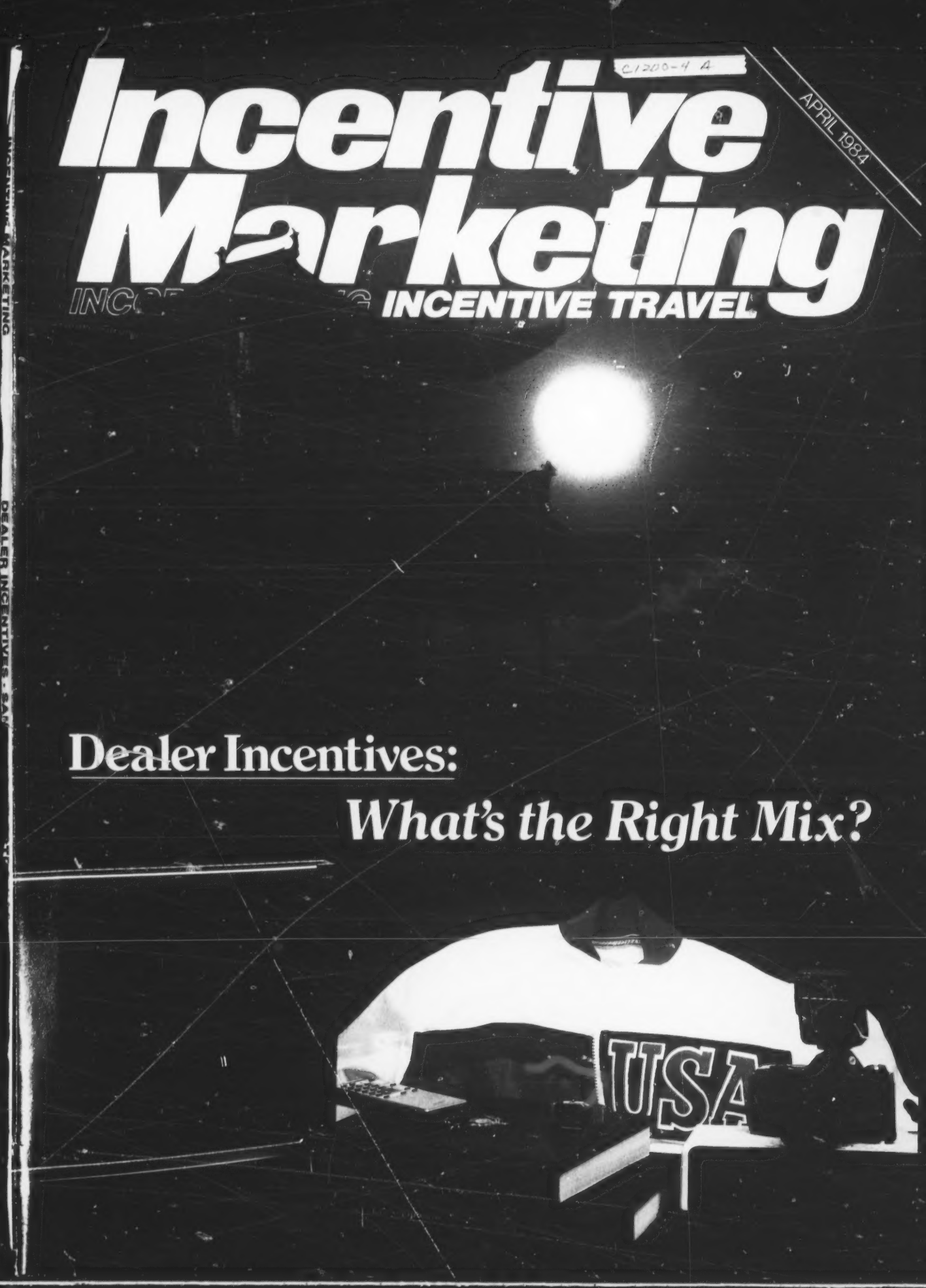
Incentive Marketing

APRIL 1984

INCENTIVE TRAVEL

Dealer Incentives:

What's the Right Mix?



INCENTIVE MARKETING
DEALER INCENTIVES · SA

Special Section: SAN DIEGO UPDATE

April 1984

Whether your group prefers meandering among the Zoo's koalas or swilling tequila while jouncing atop thoroughbred-racing burrows, San Diego's ground operators, hoteliers, attractions, and visitors bureau can help design the perfect itinerary. See page 61.

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80th Year
Vol. 158
Number 4
ISSN-0019-3364

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Bill publications and divisions: Automotive Chain Store, Incentive Marketing, Industrial Chemical News, Institutional Distribution, Jobber Retailer, Modern Tire Dealer, Plastics Technology, Restaurant Business, Restaurant & Hotel Design, Sales & Marketing Management, Successful Meetings, Foodservice Research Center, Market Statistics, Sales Builders, SM Data Bank.

Dealer Incentive Survey

Execs' optimism follows last year's spurt of activity

Skies brightened for users of dealer incentives last year, thanks to better trade acceptance and fairly stable costs.

This year's **IM** survey indicates that an improved economy spurred more dealer activity in 1983, with executives estimating a 7.4-percent increase in usage over 1982. This is a marked improvement over the prior year, which saw a meager 3.3-percent gain in use of dealer programs.

In addition, the 169 executives surveyed by **IM** said they expect to see about a 10-percent rise in dealer promotion this year, pushing total volume over $2 billion, up from 1983's estimate of $1,823,227,000.

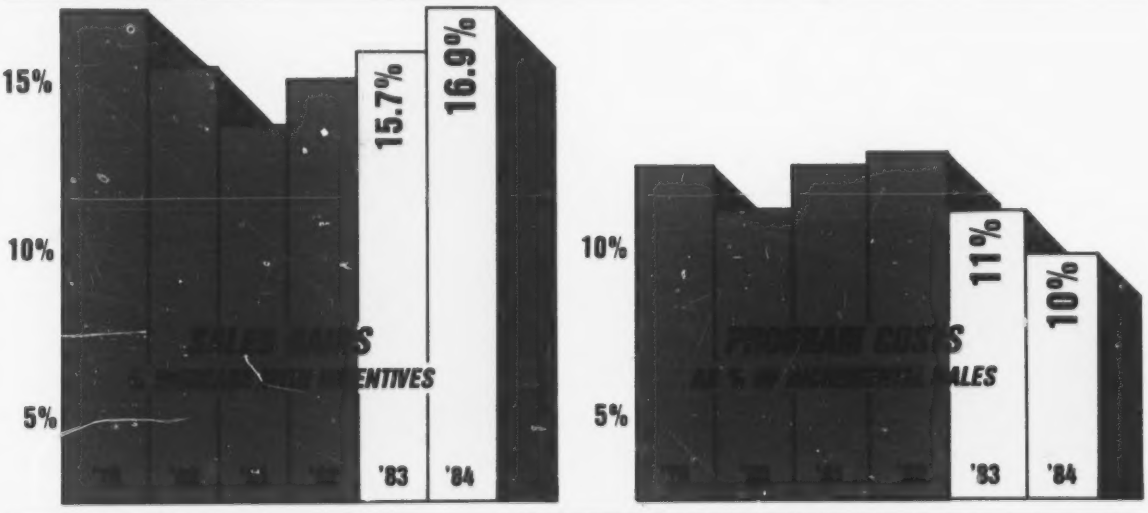
The executives said they would increase their incentive budgets this year by 12.2 percent for merchandise and 5.8 percent for travel programs. And the number of companies forecasting increases was up sharply from previous reports: 55 percent said they are spending more this year, compared with 28 percent who planned to raise budgets a year earlier.

With retail and wholesale inventories pared to the bone in many cases during the recession, it required only a clear recovery signal to open some channels, and dealer incentive users appear to have done so. Where nine of the 10 largest user industries showed flat expenditures in 1982, six of them were well above the average for 1983. In only one case—the still-ailing farm equipment industry—was there a truly weak showing last year, with a 1.4 percent increase in incentive spending. Even with inflation slowed to 3.8 percent, that still represented a retreat in promotional effort.

The biggest upturn in dealer promotion came in the automotive aftermarket, which is the largest single user of this type of incentive. Auto Parts, Accessories and Tires showed an estimated expansion of 10.1 percent in their multi-level usage of incentives. Car manufacturers did not quite match that pace, but their improving fortunes last year brought an 8.6-percent rise in their estimate for this year's dealer promotional expenditure.

Although auto parts firms continue as major users of dealer incentives, one executive pointed to a trend that has been building for a few years. "With the overabundance of auto industry dealer incentives," said Ken Marshall of Tridon Inc., Nashville TN, "we are moving more in the direction of consumer programs." Although Marshall's budget plans show

THE BOTTOM LINE: SALES WENT UP, COSTS WENT DOWN



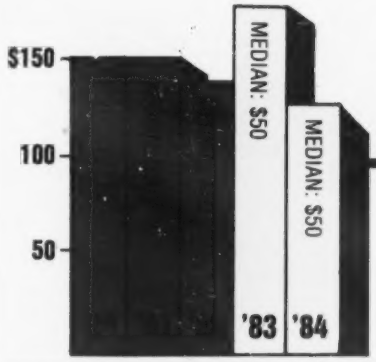
DEALER INCENTIVES

a good increase in dealer promotion, his consumer forecast is almost three times as large.

The top ten users of incentives for dealers are the same as they were in 1982, and in the same order of dollar volume, ranging from the aftermarket's $200-million plus down to more than $58 million by Feed, Fertilizer and Farm Suppliers. They account for about 56 percent of the entire dealer promotion expenditure, the same share they had in the 1982 estimates.

The survey indicates four factors that point to a very healthy picture:

- Sales increases reported by these marketers are better than those recorded in the past couple of years.
- Dealer acceptance of and qualification for incentives is at a higher rate than seen for some time.
- Unit cost of awards has held relatively well—merchandise median cost are unchanged, with travel up only a little.
- Promotion cost in relation to incremental sales has remained at the same level reported a year ago.



MERCHANDISE AWARDS

Merchandise award costs averaged $125 for this group, lower than last year's $178.

Dealer incentive campaigns are aimed at various middlemen. Always a key group, and one weighted a little more heavily than usual in this survey, is wholesalers and distributors; 49 percent of the users in the present survey said their programs are directed toward such firms. Commercial and industrial contractors are another major target, for whom 29 percent of executives conduct promotions. And 43 percent go to the retailer—supermarkets, drug stores, service stations, variety and specialty stores. Another 25 percent of these companies use incentives to motivate other types of dealers, including beauty salons, boat dealers, insurance brokers, tire dealers, agricultural stores, automobile dealers, nurseries, newsstands, lumber dealers and travel agents.

In merchandise purchases, respondents said they are now averaging $96,730 per company; travel budgets, which have tended to be somewhat larger in some recent studies, are a bit smaller among these respondents, averaging $82,860 for this year. Without regard for the type of award used, their average overall spending for this year is expected to be $112,835.

In addition to the money actually spent for purchase of merchandise and travel, marketers budget a considerable amount to promote their campaigns. This survey group reports that 73 percent of total budget goes toward awards, with the other 27 percent spent to promote and support the effort. This is a similar ratio to past dealer surveys.

If that ratio is applied to the total 1983 estimated usage of incentives—$1,823,227,000—then more than $674 million was added to it to promote incentive offers to the trade. Thus, American business is spending just under $2.5 billion to motivate middlemen.

Marketers have many reasons for offering incentives to the trade. The bottom-line goal of most is, of course, additional sales, and "increase overall volume" is always the front-running objective stated in the surveys—by 70 percent in this case. Among the more specific targets, the traditional leaders—introducing new products and moving the full line or slow items—

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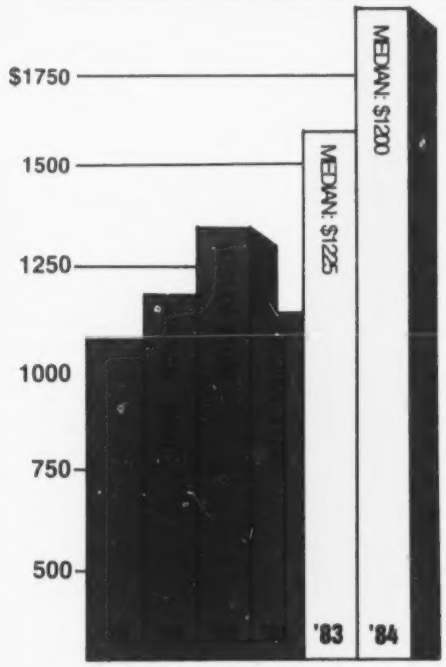
TRAVEL AWARDS



Travel costs rose from $1690 last year to $1890 per trip (for two people). But the median actually dropped by $25. Per-person trip costs averaged $1169.

still hold second and third positions, but both get much less emphasis in this survey.

In relation to retail sales effort, these firms are putting less emphasis on obtaining store displays and supporting consumer promotions—but much greater stress on building traffic at retail.

Two dealer promotions per year are generally the rule among these executives. That is the median number found for merchandise programs, for travel campaigns, and for combination promotions, when considered separately. Among those who mix these types, the median moves to three a year.

The length of these promotions varies by type, but this year's respondents have tightened the selling time by two to four weeks in the case of every promotion type except dealer sweepstakes, which are now running about a week longer than last year's survey group had said. Planning time, too, has been cut—from 17 to 15 weeks for merchandise promotions, and from 28 to 27 weeks for travel campaigns. On the whole, though, experienced users are still spending more time in planning and preparation stages than they do pushing in the field.

When that push begins has not changed appreciably. January is the leading month in this survey, as it often has been—largely because of the number of year-round campaigns that are launched then; on a frequency basis, 18 percent of programs noted in this survey show January starts. September is second with 15 percent, followed by October with 11 percent—making fall the heaviest two months of the year. For the rest of the year, campaign launches range from five to eight percent per month.

The company's own sales force remains a favorite method of reaching dealers with the message of the incentive program—listed by 72 percent of the executives. A fair second route is direct mail, used by 41 percent. Tied at 30 percent are dealer sales meetings, in-packaged literature, and trade shows. And 25 percent of these companies count on wholesalers or brokers to carry the word. Only 9 percent believe in using trade paper ads for the job. The totals far exceed 100 percent, reflecting the fact that these users rely on an average of about two and a half different media for their incentive messages.

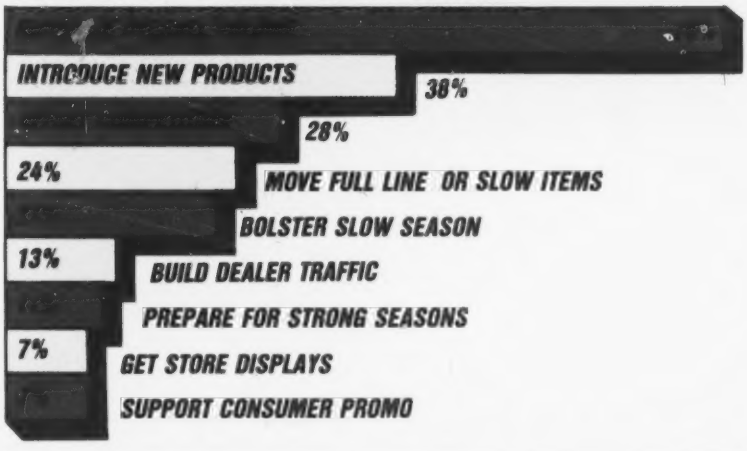
1983's estimated usage of dealer incentives was $1.8 billion. Adding an estimated $674 million for promotion, that means American business spent just under $2.5 billion to motivate the middlemen.

And then what happens? Evaluating the results yields numerous observations, starting with the key objective and moving through the entire program to the end result—product movement. And most executives have doubts along the way: Did we write the program in the best possible way to get at *this* objective? Was our record-keeping designed to get the most meaningful information? Is our field management working as effectively as it should? And, if the program really seemed to work—did the incentive do it, or was it the market, or the competitive situation, or did the economy distort our reading of the results?

In the end, though, the basic measure is sales dollars reasonably attributable to the promotion. And in this respect the executives in the current survey report good news. The average sales increases for the *same* group of companies in 1982 came to 11.5 percent—in 1983 to 14.2 percent—and this year they anticipate an average of 16.9 percent, higher than in several years. The median of their gains was not far below the average—15 percent, against respective medians in the two earlier years of 10 and 12 percent.

Certainly a major contribution to this result was the fact that these executives experience a much stronger participation in the trade than in the recent past. They report that dealer qualification for both merchandise and travel programs has come back up above the 50-percent mark, where it had been several years ago. Travel, which recently has found lighter participation levels, nosed out merchandise in their experience, by 56 percent to 55 percent average. And in both cases the median was a higher num-

WHAT CAN DEALER INCENTIVES DO?



ber, indicating a large incidence of good trade acceptance; both medians are 60 percent. A similar survey just a year ago showed a merchandise program average of 49 percent and median of 50 percent—with travel at a 41-percent average and only 35-percent median qualification.

These marketers are doing the job—getting more participation and better sales—at no increase in cost, for the most part. The median percentage of incremental volume spent for the incentive program stands at 10 percent—actually one point below last year's survey figure. The average is a different matter, however—17 percent, compared with an average of only 12.5 percent a year ago. This shows that not every company is enjoying the improved performance costwise—a minority has recorded some quite high costs in recent programs. But the total picture is, nevertheless, one of satisfying cost-effectiveness.

This is, in part at least, a corollary of containment of unit award costs. The average expenditure per merchandise award in this survey is $125—lower than last year's—and the median remains at $50. For travel, the average rose to $1890 per trip (for two, usually), from $1690 in our last report. But the median actually dropped a little, from $1225 to $1200. The per-person trip cost, where users reported it, averaged $1169, with a median of $1000.

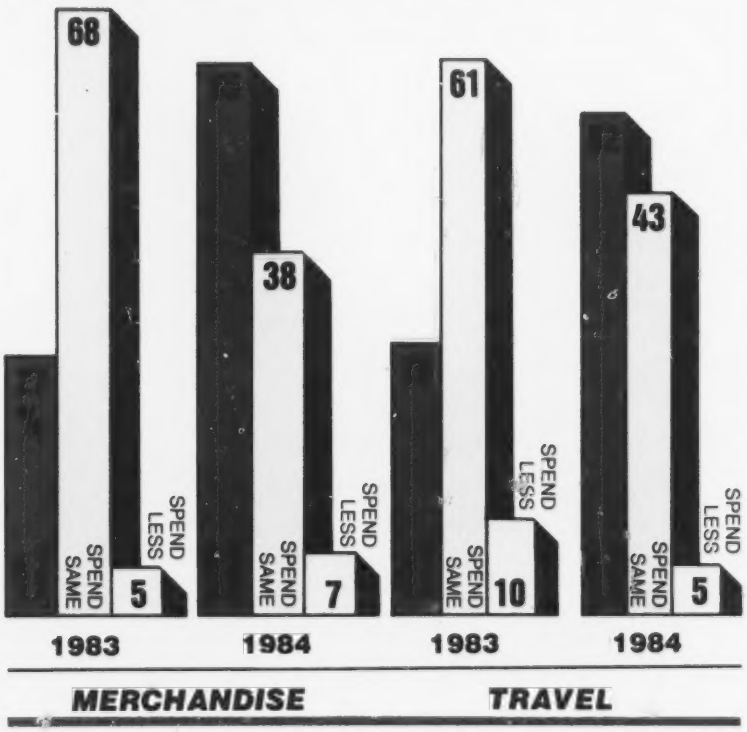
Dealer incentive users last year clearly indicated their belief in an economic recovery—early enough to get some strong programs on the books during that year and record the estimated 7.4-percent expansion after a couple of weak years.

Now, early in 1984, they appear to be following through on that recovery trend—while also recognizing that a slowing of the growth rate may demand hard work and strong promotion to keep *their* share of the recovery market intact.

At both wholesale and retail levels, it seems certain 1984 will see a major effort to set some records in motivational intensity. ■

LOOKING AHEAD . . .

"NEXT YEAR, WHAT ARE YOUR INCENTIVE PLANS?"



Types of Awards

What to offer and where to get it are clearly essential details of any incentive program. There are many answers.

Each marketer's objectives, audience, company size, facilities, and preferences produce the decisions. Here is how users in this survey make some of those decisions:

What types of awards do you most often use as dealer incentives? Percent of total respondents indicating each:

- 53% Single premium or group of related items
- 28% Merchandise catalog from incentive firm
- 21% Own merchandise catalog or selection
- 32% Group travel award
- 22% Individual travel awards

Type of merchandise considered most effective:

- 39% Personal items
- 42% Home or family items
- 19% Business-use items

How merchandise premiums are delivered:

- 66% Shipped separately
- 26% Delivered by sales force
- 8% Packed with product

Type of supplier generally used:
For merchandise awards

- 33% Direct from manufacturer
- 30% Wholesaler or premium jobber
- 20% Manufacturers' rep
- 17% Full-service incentive firm

For travel awards

- 34% Make own arrangements
- 26% Travel wholesaler
- 23% Full-service incentive firm
- 17% Travel carrier, hotel, etc.

NOTE

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